

NICARAGUA COUNTRY PLAN



**IN SUPPORT OF THE
CENTRAL AMERICA
AND MEXICO
REGIONAL STRATEGY
2003-2008**

August 2003

The Country Plan for USAID/Nicaragua was approved by the Agency on August 27, 2003. It sets forth the Agency's policy and strategic direction for assistance to Nicaragua. Budget data contained in the Country Plan are estimates and do not represent a U.S. government commitment to provide a specific level of funding.

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Nicaragua Country Plan In Support of the Central America and Mexico Regional Strategy

I. RATIONALE FOR ASSISTANCE AND SUMMARY ANALYSIS OF THE ASSISTANCE ENVIRONMENT

Nicaragua must accelerate the pace of economic and social policy reform in order to position itself to benefit from the new trade opportunities under the U.S.-Central American Free Trade Agreement (CAFTA) and ensure that all Nicaraguans share in the benefits of growth. But Nicaraguan growth and prosperity will only come about in the context of good governance and regional integration. USAID/Nicaragua proposes to implement a focused sustainable development program that will help Nicaragua move rapidly in the performance areas established in the Millennium Challenge Account (MCA).

A. Proposed Country Plan and Relationship to Regional Strategy

USAID/Nicaragua's Country Plan aims at obtaining national and regional level impacts through investments pursued under a limited number of Intermediate Results (IRs) selected from three of the four regional strategic objectives. The Country Plan takes a bold step in emphasizing the Mission's intent to spur systemic improvements in governance, economic freedom and human investment, and assure the implementation of sound policies that address the key constraints to development in Nicaragua. Supporting activities selected are closely aligned with the principal themes of the MCA. The Country Plan places greater reliance on regional mechanisms and reflects the strategic choices that led us to adopt new models of delivering assistance. Those difficult choices will cause a break with many traditional development partners but should revitalize the mission of USAID in Nicaragua in contributing to a more stable and prosperous Nicaragua, sharing the benefits of trade-led growth broadly among citizens. Sector assessments and other expert counsel informed the design of this proposed program for Nicaragua.

In order to achieve the regional strategic objective of **More, Responsive, Transparent Governance**, USAID/Nicaragua will concentrate its efforts on strengthened rule of law, by consolidating justice reform and improving the justice system, increasing citizens' access to justice including human rights protection, and involving civil society support for mobilizing reforms. Additionally, USAID/Nicaragua will focus on greater transparency and accountability of government by implementing an aggressive anti-corruption program coordinated with the Embassy and other USG agencies including reform of legal procedures related to transparency; promoting prosecution of corruption cases, support for legal reforms, mobilizing citizen watchdog groups, and strengthening the ethics and accountability of public and private institutions.

USAID/Nicaragua is already shifting toward actions to promote trade-led economic growth, improve the local business climate, increase national competitiveness and stimulate private investment. Thus the commitment to achieve the regional strategic objective of **Open, Diversified, Expanding Economies** is essential to the Mission's six-year program. Framed by the IR on laws, policies and regulations that promote trade and investment, the Mission will help build trade capacity, reduce barriers to trade and investment, and advocate for the development of investment policies that are supported by sound natural resources laws. To accomplish the IR of more competitive, market-oriented private enterprise, the Mission must rely on a variety of public-private alliances to leverage resources. The program will seek to increase investments in competitive businesses with better market linkages. Complementary to those initiatives, the Mission will support increased rural diversification and seek to sustain advances made in natural resource management through shared economic gains with competitive businesses.

The regional strategic objective of **Healthier, Better Educated People** tracks directly with USAID/Nicaragua's current strategy and proposed plan to strengthen and extend achievements in health and education sectors. Over the next six years, the Mission will focus on the IR stated as enhanced social sector investment and transparency through targeted actions to improve efficiency in social sector expenditures, including procurement processes, and to increase and decentralize investments in health

and education. Private sector alliances and greater community voice in decision-making will also be sought as means to increase investments and transparency. Building on the Mission's successful Basic Education program, the Mission plans to support the replication of model schools as a key contribution to increased and improved basic education opportunities. Finally, a significant effort will be made to improve the health status at the household and community level through extended family planning and maternal child health services, better nutrition, and improved dietary and hygienic practices under the IR of improved integrated management of child and reproductive health care.

To carry out the Country Plan, USAID/Nicaragua is changing the way it does business, reducing management units, re-deploying and reducing staff level as indicated in the Mission management assessment, and implementing other management and operational efficiencies.

B. Foreign Policy Interests and Goals in Nicaragua and Links to MPP

Increased stability in Nicaragua's democratic institutions and growth in its impoverished economy are at the heart of the U.S. interests to maintain Nicaragua among those nations aspiring to contribute to a more secure, democratic and prosperous world. U.S. national security can be affected by Nicaragua's poorly controlled borders and weak governmental institutions that cannot adequately defend against international terrorism and transit of illegal aliens, drugs and arms. Promoting economic growth through integration in regional and global markets is a top U.S. foreign policy priority since Nicaragua's poverty and high unemployment rate can threaten the long-term sustainability of democracy and rule of law. USAID's assistance program for Nicaragua is a vital element in achieving these U.S. foreign policy objectives and is central to the Embassy Mission Performance Plan goals related to democracy and economic growth.

C. Overview of Country Needs and Development Challenges

Nicaragua has hovered for decades in the ranks of the less developed countries of the world. Despite its rich territorial potential and substantial donor support, economic growth has failed to take off in Nicaragua and the country is still the second poorest in the Western Hemisphere. The challenge is to help Nicaragua improve performance in the three areas of the MCA: just and democratic governance, economic freedom, and investing in people. There is an urgent need to promote sustainable economic growth, globally competitive production, job creation and good governance in Nicaragua so as not to undermine the fragile gains in strengthening democracy and improving access to better health and education for the poor.

Although Nicaragua has established a veneer of democracy, including technically fair elections and a free press, democratic institutions are easily manipulated in favor of personal interests of the ruling elite and of the two dominant political parties. Widespread corruption and fragmented observance of the rule of law are two factors that put Nicaragua in the second, rather than the first, tier of countries qualifying for the MCA. Judicial independence needs to be guaranteed. The inability to enforce contracts and the lack of transparency and reliability in judicial decisions are among the most serious obstacles to investment in Nicaragua. The justice system in general is inefficient and politicized and additional reforms are needed to establish the legal framework required for transparent government.

Bold and decisive action is needed to establish the policies and systems that will promote trade-led growth as the best answer to the country's economic crisis. Nicaragua's problems are severe: real per capita GDP and income levels are lower than those of the 1960s, and real economic growth declined from 7.4 percent in 1999 to one percent in 2002. An estimated three quarters of the population lives on less than two dollars a day; unemployment and underemployment are close to 50 percent; and income distribution is one of the most unequal in the world. Combined foreign and internal debt at the end of 2002 was more than three times the GDP. Access to capital, a key factor in economic development, decreased sharply with the collapse of the national banking sector, and foreign direct investment is declining. Participation in CAFTA is expected to boost the sagging economy but requires Nicaragua to make investments in worker productivity and infrastructure, and demands a secure legal and regulatory framework for business investment and trade to thrive. Economic growth must be coupled with

mechanisms to ensure that Nicaragua's natural resources are protected while creating sustainable ecological-related business activities.

Though significant improvements in health and education were made over the past decade, problems remain. The average Nicaraguan has less than five years of schooling, and nearly half-a-million children, aged three to twelve, remain outside the formal education system. Population growth is estimated at 2.6 percent, one of the highest in the region, undercutting economic gains. There are serious inequities in health care access for the poorest 40 percent of the population and chronic malnutrition levels remain high for Nicaraguans in the lowest income groups. Nicaragua is challenged to substantially increase investments in basic education and health and to better manage those investments. Systemic improvements are needed to transform social sector services and increase transparency in the budgeting, procurements, and decision-making related to the sector. Both public and private sectors are equally important to this effort to lay the foundation for better educated, healthier Nicaraguans with increased capacity to share in the benefits of a growing economy.

D. Role of Other Donors in Nicaragua

Nicaragua is heavily dependent on donor aid and donor activities are very visible in the economy. Of the bilateral donors, Japan and the U.S. provide the largest volume of grants with each averaging about \$50 million annually during 1997-2001. Other major bilateral donors, Sweden and Denmark provided an annual average of \$22 million and \$21 million, respectively, during the same period. In addition, other Nordic and European countries provided assistance in the \$5 million range. The European Union is planning a \$50 million annual program with half of the resources going to support rural development and agricultural policy, and about 20 percent for the education sector. The IDB's lending program projects commitments averaging \$100 million a year over the next four years which includes assistance in the areas of competitiveness and tax reform and social sector adjustment. The World Bank recently approved a Country Assistance Strategy which will support the GON's Poverty Reduction Strategy Paper goals at about \$40 million in loans per year over the next three years.

II. STRATEGIC OBJECTIVES (SOs)

A. SO 1 Just and Democratic Governance: More Responsive, Transparent Governance

Development Challenge: Nicaragua dates its democratic transition from 1990 with the election of President Violeta B. de Chamorro. However, the country's political landscape has been described as possessing only certain elements of a real democracy – a free press, relatively transparent and technically acceptable elections operations, and diminishing levels of human rights violations. Beneath the veneer of a consolidating democracy is a system characterized by fragmented observance of the rule of law, widespread corruption and weak institutions that are easily manipulated in favor of the personal interests of the ruling elite and of the two dominant political parties, the Partido Liberal Constitucionalista (PLC) and Frente Sandinista de Liberación Nacional (FSLN). The election of President Enrique Bolaños in November 2001 and his subsequent campaign to dismantle the ingrained patterns of corruption in government created a surge of hope and public support. This support was bolstered by the initiation of the prosecution of high profile corruption cases against former President Arnoldo Alemán and of his close associates.

With strong support from the Mission, Nicaragua has achieved significant milestones in modernizing its justice system over the past few years. In December 2002, a new Criminal Procedures Code went into effect, establishing oral trials and the foundations of a more transparent, public criminal justice system. A new Penal Code is under discussion in the National Assembly and is expected to pass later this year. USAID contributed substantially to both of these achievements through support for design of the draft laws, negotiation, and extensive training and technical assistance for the institutions and individuals that will have responsibility for carrying out these new laws. Among other accomplishments, USAID helped to establish and strengthen the new Public Ministry (Public Prosecutor's Office) and Public Defender's Office, which are key actors under the criminal justice reform. Nonetheless, given the magnitude of the

shift represented by this reform, the justice system and its actors still need considerable support to assume the institutional roles and technical expertise required by the new system.

While access to and transparency of justice is expected to improve with the new codes, the justice system in general is notable for its inefficiency, politicization and lack of independence. The independence of judges and prosecutors must be strengthened through reforms in the procedures for their selection and laws that establish transparent parameters for the judicial and prosecutorial careers. Additional reforms will be necessary to establish the legal framework necessary for transparent government.

It is widely recognized that the inability to enforce contracts and the lack of transparency and reliability in judicial decisions are among the most serious obstacles to both foreign and domestic investment in Nicaragua. Civil and commercial code reform is needed, with commercial arbitration and mediation as immediate measures to free commercial disputes from the backlog and manipulations of the formal justice system. Technical improvements alone will not eliminate corruption or transform the judiciary. Political will is the key element in promoting good governance widely just as political will has been the catalyst for the extraordinary advances in fighting corruption.

The constituency for reform must be consolidated and extended beyond justice system operators and the international community to the private sector and civil society, in order to help generate and maintain political will. In addition to passage of key legislation, emphasis will continue to be placed on monitoring implementation of existing laws.

Development Hypothesis and Proposed Program: The Central America and Mexico regional strategy's emphasis on achieving more responsive, transparent governance in the region through strengthened rule of law, and greater transparency and accountability in governments, is congruent with both the U.S. country team's anti-corruption program plan in Nicaragua and USAID/Nicaragua's priorities. These themes also correlate directly with the Bolaños administration priorities of advancing judicial reform, combating corruption, and strengthening government institutions. As in other countries of the region, the fragile rule of law and widespread corruption pose major obstacles to the process of attracting investment and furthering economic growth in Nicaragua.

At the end of the strategy period in 2008, USAID expects that Nicaragua will have progressed substantially in establishing the strong democratic institutions and practices that are essential to achieve a full, functioning democracy and to attract domestic and foreign investment. The reform of the criminal justice system will be successfully implemented and consolidated and judicial and prosecutorial independence will be bolstered through focused political will and legislation. Access to justice will have expanded through more capable justice institutions as well as through the availability of alternative dispute resolution mechanisms. Accountability of government and private institutions will have improved through more transparent policies and procedures and increased citizen monitoring; and the government will have a considerably enhanced capacity to identify and prosecute corrupt acts when they occur.

Results Framework: During the strategy period, USAID will focus its assistance on building More Responsive and Transparent Governance in Nicaragua through justice sector reform and an interagency approach to addressing critical issues in fighting corruption. The Mission will collaborate with the Embassy, other USG agencies, donors and partners to promote the political will for change. The principal results anticipated by the end of the six-year strategy period are strengthened rule of law and greater transparency and accountability in government. These results will be measured through the indicators noted in the regional strategy and possibly additional country-specific indicators developed at a later date. These results will be achieved by concentrating USAID development assistance resources on efforts to: (a) strengthen rule of law by consolidating criminal justice reforms, promote other pertinent legal reforms and promote the successful prosecution of corruption cases; and (b) increase transparency and accountability in government by increasing the GON capacity to prevent, investigate and prosecute corruption, and promote adherence to ethical practices in both the government and private sector.

The following IRs and illustrative activities will produce these results:

Intermediate Result 1.1 Strengthened Rule of Law

Activities under this IR will be aimed at improving access to justice and the transparency and fairness in the justice system. USAID will continue its work to strengthen the judicial sector, including implementation of justice reforms and improving public prosecution and defense functions. USAID will promote increased access to justice through alternative dispute resolution and conflict mitigation efforts in the short term and in the long term, through the establishment of human rights guarantees. The Mission's RLA will carefully screen all proposed activities under this IR for compliance with Section 660 of the Foreign Assistance Act of 1961 (regarding assistance to police and other law enforcement forces) and any relevant exceptions.

Illustrative Activities

- Technical assistance and training to support public prosecution and defense functions
- Technical assistance and training to help ensure effective implementation of the new criminal justice reforms
- Technical assistance and training to establish and improve alternative dispute resolution mechanisms (cross-sector with IR 2.1)
- Technical assistance and policy dialogue to improve the legal framework needed to establish the rule of law
- Support for advocacy and monitoring of implementation of legal reforms

Intermediate Result 1.2 Greater Transparency and Accountability of Government

USAID will work with key government institutions to increase the transparency of their policies and practices, based on the existence of adequate political will for their reform and de-politicization. USAID may also work on transparency and ethics issues with private institutions and/or organizations. The Mission will participate in an inter-agency anti-corruption pilot project, the first in the western hemisphere, in collaboration with the U.S. Embassy, U.S. State Department's Bureau for International Narcotics and Law Enforcement Affairs and Bureau of Western Hemisphere Affairs. Activities are expected to include initiatives that promote accountability, civil society awareness, and prosecution of corruption cases. USAID will also support civil society activities to promote monitoring and other transparency-related activities.

Illustrative Activities

- Technical assistance for legal reform in areas related to transparency (i.e. judicial career law, civil service law, freedom of information law, and public disclosure)
- Support for monitoring of government activities by NGOs, investigative reporting, advocacy, and public awareness
- Strengthening of public and private institutions in ethics and accountability, improvement of procurement transparency, and strengthened disclosure mechanisms
- Technical assistance and training for prosecutors for the prosecution of corruption cases
- Establishing a research center for investigation and dissemination of transparency-related information in a local university

Strategic Choices and Sustainability of Impact: In aligning its democracy strategy with the Central America and Mexico regional strategy, USAID/Nicaragua made a series of difficult choices. In order to reduce management units, USAID/Nicaragua chose not to continue municipal development activities and civil society institutional strengthening. Elections support is also not considered an integral part of the country plan. However, with municipal elections scheduled for November 2004 and national elections in November 2006, USAID/Nicaragua expects to again receive requests for support. Given the lessons learned in the 2001 elections and previous years, the Mission has established rigorous criteria for providing additional assistance to the elections tribunal, the Consejo Supremo Electoral, whose effectiveness has been drastically diminished by politicization and disorganization. With additional funds,

the Mission may consider supporting selected elections-related activities such as voter registration, voter participation and education, issuing permanent identity cards, and domestic and international election observation.

USAID/Nicaragua also decided to exclude political party support efforts from its strategy. Within the dominant PLC and FSLN parties, party elites rigidly control decision making and there is little internal democracy. Opportunities for youth, women and others to move up in the party hierarchies are severely limited. As such, the Mission's view is that support for the parties is not an optimal investment in the near future.

The sustainability of impact of democracy programs will be assured by carefully selecting only activities for which key GON counterparts exhibit serious commitment and strong political will to affect the legal or institutional reforms being sought. The impact of transparency activities will be sustained by addressing both the public and private sides of the corruption equation.

Key Partners: Key partners for this program will include principal GON entities operating in the judicial system and Nicaraguan civil society organizations that act in an oversight and advocacy role. Contractors and/or grantees will be identified through central or regional procurement mechanisms, or bilateral competitive processes. Other USG agencies will be important partners, specifically the U.S. Embassy, State/INL and WHA.

Measuring Achievement: The Mission will measure performance through two regional common indicators at the SO level and through country-specific indicators at the IR-level. Preliminary performance monitoring plan for the democracy SO includes the indicators listed below. Baselines and targets are to be developed. It is important to note that accurate data for on judicial effectiveness, the first SO level indicator, are presently unavailable and would depend on the establishment of a case tracking system in the Nicaraguan justice sector. The Mission has funded surveys in the past, and more recently commissioned questions in public opinion polls, that could provide baseline data for the second SO level indicator on user satisfaction with government services.

SO level Indicators:

- Trial court performance (e.g., percentage cases reaching trial that are concluded; percentage that are concluded within the stipulated time period; and percentage of total resulting in guilty verdicts)
- Changes in user assessments/evaluations of the responsiveness and quality of service of key government agencies (e.g., courts, electoral authority, local governments)

IR-Level Indicators: (preliminary)

IR 1: Strengthened Rule of Law

- Percentage of criminal cases filed that go to oral, public trials
- Percentage of criminal cases in which preventive detention is applied
- Indexes tracking target legal reforms (drafting/passage/implementation/civil society participation)
- Percentage of accused that have access to free legal counsel (public defenders)
- Justice system personnel coverage relative to needs of Criminal Procedures Code implementation

IR 2: Greater Transparency and Accountability in Governments

- Number of corruption cases filed/successfully prosecuted (*if not used as SO indicator*)
- Indexes tracking target transparency-related legal reforms (drafting/passage/implementation/civil society participation)

Estimate of Required Resources: The estimated life-of-plan funding for this SO is \$39.5 million.

SO Start and End Dates: FY 2003 - FY 2008

B. SO 2: Economic Freedom: Open, Diversified, Expanding Economies

Development Challenge: Nicaragua faces severe development challenges that threaten its economic and social stability. Real per capita GDP and income levels are lower than those of the 1960s. The wealthiest 20 percent of the population receive 55 percent of national income and, although the World Bank reported improvement in poverty levels, there are now more people living on \$2 a day than at the end of 1993. As the post-Mitch boom came to an end in 2001, economic activity slowed and election year pressures and corruption prevented the GON from curbing public expenditures. High levels of deficit spending coupled with significantly increasing internal and external debt weakened Nicaragua's economy and reduced the country's international competitiveness. A recent Dun and Bradstreet report rates Nicaragua as one of the highest risk areas in the world for business investment. Access to capital, a key factor to spur economic development, decreased sharply with the collapse of the national banking sector and foreign direct investment declined by 32 percent in 2001 to \$180 million, the second consecutive year of decline. According to the Central Bank, the national economy grew only one percent in 2002, the lowest growth rate in almost a decade. Bold and decisive action is needed to establish policies and systems that promote trade-led economic growth, improve business climate, increase national competitiveness and promote private investment.

Development Hypothesis and Proposed Program: The primary constraints to development in Nicaragua have their root in a political economy that is strongly influenced by family and political connections, corruption and ruling elite that seeks to maintain social and economic control of the country. The inertia to change is great and its effect on the economy is evident in the relatively small size of the private sector compared to remittances, international assistance and the public sector. A transformation will only come as the society is forced into a larger community that demands change as a pre-requisite for participation in its market systems. In a global economy, Nicaragua will live or die by its ability to meet the social, cultural and economic demands of a system where investment and economic growth depend on creating an environment of transparency, good management and competitiveness (public and private), open trade, social stability and rule of law.

Changes in Nicaragua's political economy are required to spur sustained economic development. Policies and programs must be implemented to empower the private sector and promote trade. Systems must be established to ensure clear and consistent rule of law with strong sanctions for those who violate contracts, human rights, intellectual property rights and internationally accepted business practices. Institutions and mechanisms must provide participatory, transparent public decision-making and accountability for proper investment and use of public resources coupled with fiscal responsibility. Programs, regulations and mechanisms must be in place to improve key factors of production (via improvements in education and health services, economic infrastructure and information technology, and natural resource management). These changes are clearly required in an era of globalization and the integration of markets. Nicaragua will be successful only if it can change the way it conducts business, strengthens its international competitiveness, aggressively supports private sector growth in strategic markets and provides a business climate conducive to competition predictability, increased investment and risk reduction.

USAID will support actions that promote trade-led economic growth, improve the local business climate, increase national competitiveness and attract private investment. The Mission will promote economic growth and rural diversification coupled with initiatives to ensure that Nicaragua's natural resources are protected and used to create sustainable ecological-related business activities. Finally, the Mission will continue a food security program aimed at helping large numbers of Nicaraguans living on \$2 a day or less.

In 2008, at the end the strategy period, Nicaragua will be a more prosperous and economically strong democracy providing increased opportunities for all segments of its population. It will have democratic, social, and natural resource systems in place to sustain this growth, and will be well on the road to full integration in regional networks. Foreign direct investment levels will be increasing as Nicaragua gains an international reputation as an ethical, productive and competitive country.

Results Framework: During the strategy period, USAID will focus its assistance on achieving increased trade and investment, and the development of a competitive, market-oriented economy with a specific emphasis on market-led, rural economic diversification. These results will be achieved by concentrating USAID development assistance on trade and investment capacity building, developing a sound natural resource management program and promoting alliances that increase market opportunities, all within a regional framework. USAID/Nicaragua will work towards two Intermediate Results: Laws, Policies and Regulations that Promote Trade and Investment; and More Competitive, Market-Oriented Private Enterprises. Specific activities will be screened by the Mission's RLA to ensure compliance with statutory and Agency requirements regarding potential impacts on U.S. jobs and internationally recognized workers' rights.

Intermediate Result 2.1: Laws, Policies, and Regulations that Promote Trade and Investment

Three sub-Intermediate Results (sub-IRs) will lead to achievement of this Intermediate Result.

Improved capacity of the Government of Nicaragua to negotiate and implement trade agreements. USAID will provide trade capacity building support to prepare Nicaragua for the signing and implementation of CAFTA and other free trade agreements. Both the Nicaraguan government and private sector need assistance to meet the regulatory requirements of free trade such as bio-safety requirements, and standardized sanitary and phyto-sanitary requirements, among others. USAID will work with the government and the private sector in developing a culture of competitiveness and free trade, and building momentum towards regional integration.

Reduced barriers to trade and investment. Identifying the barriers to trade and investment is the first step to stimulate reforms that will encourage trade and investment. USAID will encourage partnerships among the private sector, civil society groups, and the government so they can advocate effectively for the passage of predictable, fair, open, and transparent laws, policies, and regulations that facilitate commerce and investments in Nicaragua. These laws and regulations will be consistent with the provisions in free trade agreements for labor, environment, and intellectual property rights. Through partnerships, USAID will also advocate for customs reforms to allow commerce to cross borders more easily and efficiently to reach the main markets and ports throughout the Central American region. Financial sector reforms, creation of a credit bureau, and tighter regulation of the banking sector will also be supported during this strategy period to stimulate lending to export businesses. To resolve commercial disputes, commercial arbitration panels and alternative dispute resolution forums may be established.

Investment policies supported by sound natural resource management laws, policies, and programs. Nicaragua is highly vulnerable to natural disasters which have caused inordinately high loss of life and damage to the economy in the past thirty years. To sustain the benefits of trade-led economic growth, Nicaragua needs sound policies that conserve critical natural resources and mitigate natural disasters.

Illustrative Activities

- Trade capacity building and assistance to facilitate the implementation of CAFTA and transition to free trade and competitiveness
- Technical assistance for public-private partnerships to advocate for legal and regulatory reform
- Establishment of alternative means to resolving commercial disputes (cross-sector with SO 1)
- Technical assistance for the GON to integrate economic policies with policies that reduce Nicaragua's vulnerability to natural disasters

Intermediate Result 2.2: More Competitive, Market-Oriented Private Enterprises

A key objective of all of the activities implemented under this Intermediate Result is to leverage the resources of private sector, other donors, and non-government organizations. To the extent practicable, USAID will seek to form opportunity alliances with a variety of partners to increase the impact, breadth, and depth of activities undertaken to achieve these results. Many of the alliances being formed (e.g., rain

forest coffee and a faith-based specialty coffee alliance) will favor rural diversification given the need to bolster the competitiveness of the agricultural sector.

This Intermediate Result will be achieved through two sub-IRs.

Increased investments in competitive businesses and improved market linkages. USAID will help stimulate investments in competitive businesses in Nicaragua and link these businesses to regional and world markets. Actions will be taken to improve access to credit for all businesses through financial sector reform and loan portfolio guarantees (e.g., Development Credit Authority). USAID will help identify and overcome barriers to regional financial systems aimed at speeding financial transactions. Initiatives will be developed to improve Nicaragua's competitiveness by approaches that may include increasing access to clean, reliable, and affordable energy, reliable and affordable communication, cleaner production technologies and other improved technologies. USAID will support Nicaragua's efforts to improve the overall business climate, decrease risk, and promote investments. As a result, the development impact of remittances will increase, Nicaragua will attract more foreign direct investment, and the private sector will have greater access to capital.

Because the agricultural sector accounts for a significant part of economic production and employment, activities to increase competitiveness in this sector, at least at the outset, will be vital for achieving these objectives. Rural diversification will be demand-driven by those entrepreneurs who aggressively pursue market opportunities for agricultural products.

Management systems that conserve natural resources sustained by competitive, market-oriented enterprises that are consistent with the conservation goals. USAID will focus on developing linkages to green markets and other income generating activities from natural resources that are consistent with conservation goals and the management plans of protected areas, forests, and water resources. USAID will establish alliances with the government, private sector, international non-government organizations, and universities to develop income generating activities that help to sustain resources management systems. USAID will report the impacts of these activities on conserving biodiversity and mitigating global climate change in Nicaragua.

Illustrative Activities

- Provide technical assistance and program support to promote trade-led economic growth, and improve the business and investment climate
- Identify and address structural, policy and regulatory constraints on national competitiveness
- Identify regional and global market opportunities for which Nicaragua has a comparative advantage and develop a national strategy to support private sector initiatives in key markets
- Support rural diversification and link agriculture producers, especially those in P.L. 480 Title II programs, to markets for non-traditional agriculture products
- Provide technical assistance to improve competitiveness in "green markets"

Strategic Choices and Sustainability of Impact: USAID/Nicaragua made strategic choices that sharpen the focus of our efforts to stimulate economic growth. The choices are congruent with the parameters of the regional Central America and Mexico strategy. In the future, the Mission will not direct targeted assistance exclusively to small-scale agriculture producers and instead will focus on producers with the greatest potential to compete in markets with non-traditional agricultural products. We will not support new micro-credit programs for agriculture since the finance mechanisms established with our help in the past are now near maturity. USAID/Nicaragua will no longer implement a separate natural resource management program rather the sustainability of natural resource use is treated as an integral factor in competitiveness. Despite the important need to resolve land tenure issues in Nicaragua, USAID simply does not have funding available to have a meaningful impact in this area. The Mission is examining the possibility of supporting some quick impact approaches, such as introducing title insurance as a competitiveness intervention that will address land issues and incentives. The IDB and World Bank are addressing land tenure in Nicaragua.

The Mission will enhance the sustainability of programs in this SO by ensuring that activities are geared towards achieving national level impacts, and are able to “scale up” to affect a much broader range of beneficiaries. Policy changes will have far reaching impacts on the trade, investment and business climate of the country. Ensuring sustainability requires that USAID form alliances with other donors, including both multilateral and other bilateral donors, and promote a more effective dialogue between the public and private sectors in the country. Furthermore, integrating the Mission’s natural resource management activities—from soil conservation to green markets to clean production—into our economic growth programs will ensure that these interventions lead to sustainable use of resources.

Key Partners: Government of Nicaragua partners will include the Ministries that form the economic cabinet and other government entities involved with the legal and regulatory framework for trade and investment. USAID will engage with key private sector organizations such as producer and business associations at both national and regional levels. Individual enterprises, cooperatives, and financial institutions will be important partners. Alliances with international financial institutions and other donors are particularly important to the success of the economic growth strategy.

The Mission intends to implement this SO through a limited number of new acquisition or assistance mechanisms. Major contractors or grantees will be determined through competitive procurements following the strategy approval. Save the Children, Project Concern International, ADRA, and CRS will continue through 2006 as Title II Cooperating Sponsors.

Measuring Achievement: The Mission will measure the program’s contribution to two common regional SO level indicators as defined below. At the IR level, the Mission will develop preliminary indicators before the Regional Strategy review at the end of May in Washington, and establish baselines and targets before the start of the new strategy. Two preliminary IR-level indicators are listed.

SO Level Indicators:

- Increase in Trade as a percentage of GDP
- Changes in composition and contribution of various, higher value-added sectors to the economy (e.g., manufacturing, merchandise, eco-tourism, services)

IR-Level Indicators: (preliminary)

- Increase in foreign direct investments as percentage of GDP
- Number of participants linked to markets
- Increase in sales of certified environmentally-friendly (green) products

Estimate of Required Resources: The estimated life-of-plan funding for this SO is \$104 million. In addition, an estimated \$35 million of P.L. 480 resources will also be provided for this SO.

SO Start and End Dates: FY 2003 - FY 2008

C. SO 3 Investing in People: Healthier, Better Educated People

Development Challenge: Some of Nicaragua’s greatest advances in the recent past occurred in health, family planning, and education, accomplishments that are all the more remarkable given the country’s continuing abject poverty. This includes the challenge of creating enhanced and efficient social sector investments. Many factors supported these improvements, including the significant influx of USG and other bilateral and multilateral donor assistance following Hurricane Mitch in 1998, carefully targeted primary health care and basic education investments and sustained community participation and mobilization.

These factors resulted in marked improvements in key social sector programs and indicators during the 1990s, including reductions in infant mortality rates, fertility rates, chronic malnutrition, increased contraceptive prevalence rates, and increased school enrollment and access to quality education. However, serious health and education problems remain. The total fertility rate is nearly the highest in

Central America. There are serious inequities in health status and access to services for the poorest 40 percent of Nicaraguans. Although chronic malnutrition rates dropped nationwide, particularly high levels remain for those in the poorest quintile. Despite the advances in education, the average Nicaraguan has completed less than five years of schooling. Almost 30% of children aged three to twelve remain outside the formal education system.

Upon taking office in January 2002, President Bolaños declared health and education top priorities for his administration. He appointed a dynamic Minister of Education who has provided great impetus to strengthening the Ministry and enacting needed reforms. However, because Nicaragua's own economic base is so small, the GON contribution remains too small, in absolute terms, to meet the country's basic needs. Nicaragua needs increased investment in the social sector and better management of resources to provide the country a healthy, better-educated population as the basis for development.

Development Hypothesis and Proposed Program: The Central America and Mexico regional strategy's emphasis on the importance of healthy, educated individuals as an important determinant of development is congruent with USAID/Nicaragua's Country Plan to improve public and private health services, increase access to quality education at the primary level, and promote increased social sector investments. Although the Bolaños government has made health and education a priority, the gains in these areas are still fragile and vulnerable to rollbacks. In order to strengthen and extend achievements in the social sector for greater national impact, USAID/Nicaragua will work towards three Intermediate Results: Increased and Improved Social Sector Investments and Transparency; Increased and Improved Basic Education Opportunities; and Improved Integrated Management of Child and Reproductive Health.

Results Framework: During the strategy period, USAID will focus its assistance on achieving improved public and private health management, greater educational opportunities, and better family health practices. These results will be measured through the indicators noted in the regional strategy and possibly additional country-specific indicators developed at a later date. USAID will concentrate its development assistance on efforts to: (a) improve government capacities to plan and manage health and education investments, (b) increase access to quality education at the primary level, and (c) improve health status at the household and community level. To that end, USAID/Nicaragua will focus on three Intermediate Results leading to achievement of the strategic objective.

Intermediate Result 3.1: Increased and Improved Social Sector Investments and Transparency

Two sub-IRs frame our activities under this Intermediate Result.

More efficient expenditures (including procurement processes) by Ministries of Health and Education. USAID will work with regulatory authorities, local government officials, legislators from the National Assembly, and other policymaking institutions to support a broad-based revision of systems which fail to protect adequately against corruption and inefficient management in the health and education sectors. One first step will be to ensure that the Ministry of Health applies the recommendations of a Pharmaceutical Sector Assessment delivered in November 2002. A critical element for the Ministry of Education is to develop more effective coordination of donor funds and the implementation of policies that will help ensure that resources are having the greatest impact for quality education. This sub-IR presents also an important opportunity for cross-sector collaboration with the other SOs.

Increased and more decentralized investments in health and education. USAID programs will aim to improve government capacities to plan and manage health and education investments and to decentralize these services for greater impact. USAID will seek opportunities to influence the central government to improve and simplify legal and regulatory frameworks for the new General Health Sector Law, the Hospital Law, and rules for expanded participation in and development of private sector health markets. New Nicaraguan laws and regulations stipulate that the private health sector will provide an increasing proportion of out-patient and curative services, particularly in urban areas. USAID will assist the MOH to develop the management capacity to respond to this challenge by providing oversight, establishing norms and standards, quality control and regulation of services increasingly contracted out to the private sector.

USAID will promote private sector alliances to increase investment opportunities in the health and education sector. Technical assistance, loan funds and a new development partnership between private sector providers, the Nicaraguan Social Security Institute (INSS) and the MOH offer investment opportunities that will improve private sector health competitiveness and quality of care. In education, a Global Development Alliance will increase access to quality education by replicating the number of model schools.

School decentralization and autonomy are hallmarks of contemporary school reform efforts in Latin America. USAID will continue to assist the Ministry of Education to decentralize education through the training of teachers and supervisors, and by strengthening school councils with parent participation. USAID will encourage greater public and private investment in education to increase access to quality education, and support policies that promote equity in education. USAID will also support public meetings, seminars of technical experts, policy discussions, and other civil society initiatives centered on priority health and education issues.

Illustrative Activities

- Technical assistance to improve GON capacity in policy formulation, investment planning and program implementation in matters relating to basic education, and reproductive and child health
- Technical assistance to reform forecasting, inventory control, logistics management and support social marketing of pharmaceuticals
- Use of Development Credit Authority and Global Development Alliances to leverage investments in private health facilities and model school expansion

Intermediate Result 3.2: Increased and Improved Basic Education Opportunities

Improved quality and efficiency of education with a focus on primary level. A recent evaluation concluded that USAID/Nicaragua's Basic Education program has been successful, with some schools that could serve as an international model of a quality primary school. The Ministry of Education has decided to replicate USAID's approach to at least 4,000 primary schools. Nicaragua was selected by the World Bank and other donors as one of 23 countries for its "Education for All Fast-Track Initiative (EFA-FTI)". This is an ideal situation for roll-out of a successful USAID activity, with GON ownership, World Bank and other donor financing, and USAID technical leadership. During the EFA-FTI start-up, USAID will continue to provide technical assistance and teacher training, with the World Bank and other donors contributing complementary assistance for major cost items like school libraries and learning materials, infrastructure, computers, support to Ministry supervisors, among others.

Illustrative Activities

- Technical assistance to guide the expansion of the model schools to ensure that the quality is maintained during replication
- Teachers trained to teach reading skills in early primary grades through the Centers of Excellence for Teacher Training (CETT) program
- Assist the Ministry of Education in implementing reforms outlined in the government's National Education Plan, specifically in primary education

Intermediate Result 3.3 Improved Integrated Management of Child and Reproductive Health

USAID/Nicaragua will approach this Intermediate Result through two sub-IRs.

Improved and expanded family planning and maternal and child health services and information/education. Although USAID will continue to support procurement of public sector contraceptives, the aim is to do so, if possible, at diminishing levels through the strategy period. USAID will work through Nicaragua's PVO/NGO community to promote personal and community responsibility for improving child

and reproductive health status at the household and community level. Some of the results expected are: access and outreach of MOH health clinics extended by linking health staff directly with volunteer health workers and families in rural areas, and expanded community-based distribution of contraceptives.

Better nutrition and dietary and hygienic practices. The Mission's P.L. 480 Title II program and PVO/NGO activities to improve dietary and hygiene practices will combine to produce a marked impact on nutrition in high-risk communities. Other results expected include household and community behavior change in hand-washing, hygiene, water use and safe disposal practices.

Illustrative Activities

- Procure public sector contraceptives, strengthen social marketing and other distribution systems, and support the development of a national contraceptive security plan
- Encourage greater PVO/NGO cooperation with the Ministry of Health to improve service delivery and health education
- Target high-risk, food-insecure communities with P.L. 480 Title II programs and introduce growth monitoring combined with nutritional counseling for mothers
- Use the Integrated Child Care (AIN) model of nutritional surveillance and counseling in all PVO-managed and MOH child survival and maternal child health programs
- Coordinate with USAID missions in Honduras, El Salvador and Guatemala for regional scale up of AIN

Strategic Choices and Sustainability of Impact: The Intermediate Results selected for USAID/Nicaragua's Country Plan in the area of human investment reflect an explicit prioritization of investments that will have a national impact. Our focus is on good governance in the social sector and implementation of sound policies that address the key constraints to development. These mark a major departure from how the Mission did business in the past, and many traditional grantees are not likely to continue to be recipients under the new strategy. The Mission has decided that individual child survival or health grants with U.S. PVOs and national NGOs and geographic "niche" projects will not result in the national level impact being sought. Our long-term grant funding to the local affiliate of the International Planned Parenthood Foundation will terminate and USAID will limit its support to providing technical assistance to help it reach full financial self-sufficiency. USAID/Nicaragua will need the help of the LAC Bureau to work on discouraging directives to fund organizations that do not directly contribute to the new, focused Country Plan.

At the policy level, USAID's efforts to encourage the government to increase investments in both health and education will enhance the sustainability of progress achieved. USAID's new health governance effort will directly and most comprehensively improve the sustainability of Nicaragua's fragile recent gains in health status because of its work across both the public and private sectors to improve access, quality and efficiency of services. USAID's work to increase Social Security contributions and coverage will produce a more competitive and expanded private health market providing better quality care to those working in the formal and informal sectors. It will also shift the cost burden away from the Ministry of Health because increasingly, only the very poor will need to continue to rely on free public services from the MOH. The MOH can then shift its role from that of primary service provider to that of regulator and guarantor of quality care and work on the systemic improvements urgently needed in its planning, financing and procurement functions. USAID's major private family planning partner, PROFAMILIA, achieved 55 percent cost recovery in 2002 and has applied for membership as one of the National Social Security Institute's authorized providers, which will vastly expand the organization's client base. In education, USAID's development of effective partnerships with the government and other donors, especially the World Bank, Canada, and Sweden will promote the Education-for-All Fast Track Initiative in a way that will genuinely focus on improving the quality of primary education nationwide, ensuring the development of an educated, productive and competitive society.

Key Partners: Key partners will include the GON line ministries involved in the social sectors, mainly the health and education ministries, the Nicaraguan Social Security Institute, private sector for-profit and non-profit health providers, and new partners in public-private alliances. The Pan-American Health

Organization and the World Bank, as well as other bilateral and multilateral donors, will continue to have an important collateral role in our human investment strategy. Contractors and/or grantees will be identified through central or regional procurement mechanisms, or bilateral competitive processes. P.L. 480 Title II Cooperating Sponsors continuing through FY 2006 are Save the Children, ADRA, Project Concern International, and CRS.

Measuring Achievement: Program performance will be measured at the SO level through four common regional indicators. The Mission has developed preliminary IR-level indicators and will define baselines and targets before the start of the new strategy.

SO Level Indicators:

- Primary education completion rates
- Net enrollment rates for grades 7-9
- Immunization rates: DPT
- Total Fertility Rates

IR-Level Indicators (preliminary):

IR1: Increased and Improved Social Sector Investments and Transparency

- Public expenditures on primary education as percentage of GDP (shared with IR2)
- Public expenditures on health as percentage of GDP

IR2: Increased and Improved Basic Education Opportunities

- Public expenditures on primary education as percentage of GDP

IR3: Improved Integrated Management of Child and Reproductive Health

- Number of private sector health alliances established
- Self-sufficiency of private family planning association
- Global malnutrition rates in children under two years of age
- Infant Mortality Rates

Estimate of Required Resources: The estimated life-of-plan funding for this SO is \$65 million. In addition, an estimated \$27.5 million of P.L. 480 resources will also be provided for this SO.

SO Start and End Dates: FY 2003 - FY 2008

D. Crisis Modifier

Earthquakes, hurricanes, volcanic eruptions, and forest fires occur frequently in Nicaragua, often with devastating impacts. In addition, while an incipient institutional base and networks are forming, the country lacks adequate disaster preparedness and capacity for coordinated response. It is almost a certainty that within the course of this strategy period at least one major natural disaster will occur, outstripping the host country's capacity to respond. As with Hurricane Mitch in 1998, disasters are likely to set back socio-economic gains that have been made.

Therefore, pursuant to ADS 201.3.4.4, USAID/Nicaragua is incorporating the Crisis Modifier approach into its Country Plan. In the event of a major humanitarian crisis, the Mission will invoke the Crisis Modifier and seek Bureau approval, where necessary, to modify its activities to account for the crisis. In order to use the Crisis Modifier, the Mission will submit to the Bureau a time-phased plan in accordance with the guidelines set forth in the current CAM Regional Management Agreement. This modifier applies to all of our Strategic Objectives, and appropriate "crisis modifier" language will be included, to the extent possible, in all grants, contracts, and agreements (including Strategic Objective Agreements) under these objectives. The Mission acknowledges that Congressional Notifications may be required to invoke the modifier and that account and earmark restrictions will remain in force.

III. PROGRAM RESOURCES

The August 2003 Management Agreement, which approved the CAM Regional Strategy, provided the estimated life-of-plan (LOP) funding for each of the Mission's Strategic Objectives for the period FY 2003-2008. These LOP amounts are shown in the table below.

FY 2003-08 Estimated Life-of-Plan Budget (\$Millions)

| Account | Strategic Objective | | | Total |
|-----------------|---------------------|--------------|-------------|--------------|
| | SO1 | SO 2 | SO 3 | |
| DA | 39.5 | 104.0 | 21.0 | 164.5 |
| CSH | 0 | 0 | 44.0 | 44.0 |
| P.L. 480 | 0 | 35.0 | 27.5 | 62.5 |
| Total | 39.5 | 139.0 | 92.5 | 271.0 |

Changes in our strategic direction require a new mix of resources and more flexibility on directives and earmarks compared to the past. Relief from earmarks is especially critical in our Country Plan strategic objectives related to good governance and trade-led economic growth given the demand for unrestricted DA funding to finance activities in support of those objectives. The budget in the Nicaragua Country Plan assumes that at least half of our DA funds for the economic growth strategic objective be available as unrestricted Business, Trade and Investment funds. If ESF funding is allocated to Nicaragua, the Bureau indicated in the parameters setting exercise that it could be used to support elections, good governance and anti-corruption themes in all strategic objectives. Hence, the Mission would possibly use ESF funds not only for elections support but also for fighting corruption and improving the business climate as Nicaragua moves towards CAFTA.

It should be noted that the current P.L. 480 program will end by December 2006. If the program is not continued, the total LOP funding for the P.L. 480 account will be around \$20 million less and thus the Life-of-Plan total funding will be reduced from \$271 million to \$251 million over the six-year strategy period. In that case, the Mission will request that the LAC Bureau compensate the \$20 million shortfall with funds from other accounts to meet the total LOP amount of \$271 million.

Global Development Alliance and its role in leveraging resources

Official development assistance (ODA) is no longer the primary source of financial flows to many developing countries, although in Nicaragua, ODA continues to be a large portion of the economy. However, the overall trend in the region is that of increasing private sector financial flows, including trade, foreign direct investment, charitable contributions and remittances, which far eclipse USAID's declining resources. Hence, consistent with the Regional Strategy, the Mission will aggressively and consistently adopt an overall procurement strategy that incorporates private sector funding and alliance-building as primary elements. Through these alliances and other collaborative efforts with contract and grantee partners, the Mission will seek to shift its role from that of a primary procurer or "buyer" of development services to that of a facilitator, catalyst, broker, or even outsourcing agent of development resources. This will help leverage our funds with the vast financial resources of both corporate philanthropic interests and other donors. When technically possible, the Mission will incorporate alliance-building language and selection criteria into all Activity Approval Documents, Requests for Application, and Annual Program Statements, and will actively work with contract and grantee partners to develop and implement alliance-building plans.

The Mission expects to develop a number of major Global Development Alliances in economic growth, education and health. We are actively developing partnerships with international PVOs and national NGOs, universities, other donors, International Financial Institutions, and the private business sector, to augment the impact of our development assistance.

IV. PROGRAM AND OPERATIONAL MANAGEMENT

To implement this Country Plan, the Mission is committed to a radical change in the way it does business. We plan to reduce management units, re-deploy and rightsize staff as indicated in the Mission management assessment, and implement other management actions and operational changes that will increase efficiency, simplify assistance delivery and limit management-intensive activities. All these while maintaining the ability to carry out a program that will result in meaningful change in Nicaragua. This Country Plan is the result of efforts to design a highly focused and streamlined program.

Operating Expense (OE)

In response to OE budget squeeze and the Mission management assessment, USAID/Nicaragua examined the mix of OE and program staff needed to implement the Country Plan and reviewed best practices. The Mission then developed a rightsizing plan that will be phased-in by the end of FY 2004. Consequently, the Country Plan requires lower levels of staffing and management units that will minimize the burden on OE in future years.

In the short term, however, the Mission will face substantial cost increases related to the severance package and implementation of a mandatory FSN retirement plan. In addition, mandated increases in FSN salaries, higher residential and office guard service costs due to increased security threats, and ever-increasing ICASS costs continue to put pressure on limited OE resources. As a result, OE cost savings will not be realized until we are well into the strategy period.

Staffing

USAID/Nicaragua is already realigning its staff to better match the program focus of our new strategic objectives under the Central America and Mexico regional strategy. After the Hurricane Mitch Reconstruction Program concluded, USDH staff was reduced from 15 to 12 and an additional six non-USDH staff positions were deleted from our roster. Following the January 2003 Mission Management Assessment, the Mission had developed and submitted to Washington a rightsizing plan that identified additional staff reductions beginning in FY 2003 and concluding with a staff complement of 95 by the end of FY 2004. Additionally, in the remaining years of the strategy period, the plan foresaw the possibility of continued declines in staff, and for locally-engaged staff to take on greater management and technical responsibilities previously carried out by USDHs or USPSCs. With the recent template allocations provided to the Mission, the mission must now prepare and submit a revised rightsizing plan which will incorporate these template allocations and criteria. The greatest concern is to assure the right mix of staff competencies and experience to manage smarter, manage more program dollars per employee, and still maintain a high quality program with strong accountability for results and financial management.

The CAM Regional Strategy merges a regional strategic focus and associated economies of scale with oversight and accountability through individual bilateral programs. In doing so, it meets Agency requirements in an innovative manner.

Program Monitoring and Coordination

A region-wide Performance Management Plan (PMP) will be developed for the CAM Regional Strategy within a year of the Strategy approval. The plan will measure performance at both regional and country levels with targets set at the SO and IR levels. The Program Office in G-CAP (or another operating unit, as designated) will conduct follow-on monitoring and coordination to assure that the PMP is kept up to date and that Strategy and Country Plan implementation remains on track.

Management Units

In order to reduce pressures on OE and management burden, the Mission will keep management units to a minimum. It is expected that each strategic objective team will manage no more than two to three

acquisition and/or assistance mechanisms. The number of management units will thus decline from approximately 30 major units currently to a total of six to nine under the new strategy. The Mission will also rely heavily on regional and global mechanisms as well as field support instruments to implement its activities and shift the management burden outside of the Nicaragua mission.

Procurement

The CAM missions are working together to develop a region-wide procurement plan that will identify the most efficient mechanisms for implementation and to improve the allocation of acquisition and assistance work among contracting staff based in the field. USAID/Nicaragua will also identify Washington, regional, or country-based mechanisms that can best serve its needs. The use of pre-competed U.S.-based acquisition and assistance instruments will be maximized to the extent possible.

V. ANNEX: SUMMARIES OF ASSESSMENTS AND STUDIES

Mandatory assessments and key studies prepared for this strategy are summarized in the Annex. It is also noted that a follow-up Mission Management Assessment will be conducted in the near future (date to be determined) as requested by LAC Bureau management.

ANNEX: SUMMARY OF TECHNICAL ANALYSES

GENDER ASSESSMENT

The assessment provided an overview of key gender issues in the three strategic objective areas, and made recommendations about how the Mission may achieve greater gender integration by focusing on the impact of gender relationships on program results, and the impact of the program on the status of women.

Awareness of gender issues in Nicaragua, both in government and the donor community is high. This reflects Nicaragua's strong women's movement, with its political history, and its presence as a force for institutionalizing attention to gender. Yet, inequality remains a significant constraint. Women are more likely than men to be living in poverty, and employed women earn less than men even in the same jobs. Domestic violence and violence against women are widespread.

The Mission was encouraged to join other donors in strengthening gender integration by requiring that USAID/Nicaragua projects incorporate gender considerations in design, training, and indicators. Recommendations for each sector follows.

For trade-led economic growth, the report suggested that USAID/Nicaragua take into account the economic roles of both men and women. Women make up almost half of the workforce and more than 80 percent of the employees in the Free Trade Zones. Effective public-private participation in development of an economic growth strategy should include organizations representing women workers. A Mission activity to inform and educate grassroots civil society organizations about trade and macro-economic choices will increase the depth of this participation. The Mission should track the impact of macro-economic programs on men and women through sex disaggregated indicators of labor force participation, income, and poverty. Youth unemployment, especially for young men, is an issue that deserves explicit attention.

In Democracy and Governance, the assessment focused on projects in justice reform and civil society support. USAID/Nicaragua's considerable impact in reform of the criminal justice system will be strengthened by explicitly including gender expertise in the teams drafting the laws and by consulting with civil society groups that advocate for the human rights of women in the review process. Training for prosecutors and judges should include sessions on crimes of domestic violence and violence against women. Support for grassroots organizations that educate women about their rights and how to access the justice system should be part of the institutionalization of the reforms.

Programs focused on Investment in Human Capital, in health and education, have involved more female than male participants. Gender integration in education should move beyond participation to focus on the impact of education in transmitting gender stereotypes, and on preparation for the workforce. USAID/Nicaragua has made considerable investment in strengthening health institutions. Building an awareness of gender relations into the policies and organizational structures will improve the responsiveness of the institutions to men, to issues of family planning and HIV/AIDS, and to the significant issue of domestic violence.

TROPICAL FOREST AND BIODIVERSITY ASSESSMENT

Tropical Forest. The tropical forest assessment recommended interventions in two areas: policy and legislation, and forest management. It was suggested that a comprehensive forestry law be fashioned to encourage the conservation of forested areas, including protected areas, through the use of incentives, low interest loans, and private management. A recently passed forestry law may be able to achieve these objectives.

In the area of forest management, the assessment team found that good land management is lacking despite elaborate strategies. Traditional logging and migratory agriculture depletes Nicaragua's forest resources and effects soil fertility, farm productivity, water supplies, and wildlife. Forest resources are undervalued and secondary forest industries have not been fully developed to maximize value-added products and employment. Forest certification for harvest in buffer zones could help guarantee sustainable operations and should be considered. It was recommended that plantations be established for industrial use to reduce pressures on natural forests. The National Institute of Forestry (INAFOR) needs to strengthen its enforcement of forestry regulations.

Biodiversity. Past political instability and current land tenure problems make Nicaragua a high risk environment in terms of using available resources in a sustainable manner for the long term. High risk then translates into short-term investments with little incentive to protect biodiversity. Donor or cooperator initiated financing is declining, which may exacerbate the situation.

In general, Nicaragua's laws are adequate to conserve biodiversity, but enforcement is not sufficient. The government of Nicaragua is encouraged to make every effort to enforce all existing environmental laws and regulations and set the example for the nation through its field personnel.

In terms of biodiversity, Nicaragua has 244 species of fauna and flora on the CITES Appendices I and II. Little is known about the population sizes or current status of these species within the country even though this information is critical for management.

Of the nation's 76 protected areas, seven are managed under arrangements with the Ministry of Environment, NGOs and community groups (co-management). Carrying capacity needs to be determined to assure that resources will not degrade through excessive use and to establish tolerable levels of tourism activities within the 76 protected areas. Appropriate limits for hunting and fishing of all game species, whether endangered or not, for the entire country needs to be established.

One of the strongest arguments to finance protected areas is that tourism generates more GDP than several other segments of the economy. One approach would be to stimulate an environmentally friendly ethic among Nicaraguan investors in the development of major projects. Nevertheless, before major efforts are made to attract more tourists, the Tourism Institute and the Ministry of Environment need to determine the status of existing resources and develop carrying capacities for allowable wildlife limits and human use. Efforts should also be made to build the fund-raising capacity of local NGOs at the international level in order to sustain long-term projects. Furthermore, the direct purchase of property or possibly long-term leases of state property by private investors for purposes of protected area management might be the most direct, safest and surest way to protect biodiversity in the long run.

CONFLICT VULNERABILITY

The conflict assessment sought to determine the likelihood of renewed armed conflict in Nicaragua. It focused on five factors commonly believed to be required for a deadly conflict to emerge, viz.: 1) root causes such as grievances and greed; 2) organizational capacity within the country and access to resources; 3) the government or other national entity's institutional capacity and ability to respond; 4) regional, international or other external factors; and 5) windows of vulnerability. The findings of this assessment follow.

Nicaragua has ample root causes for potential violent conflict particularly in the autonomous regions of the Atlantic Coast. Grievances include ethnic tensions, political exclusion, severe poverty and the related issues of land tenure and control over natural resources. As a result, isolated incidents of violence have already occurred mostly at the family and community levels. In recent years, however, no groups have emerged with the capacity to mobilize populations across ethnic lines or link aggrieved communities at the regional or national levels. Inadequate resources, particularly financial, would likely impede or prevent the outbreak of sustained violent conflict even if mobilization were to occur at some future date. In addition, the personal and collective costs of the 1979 revolution and ensuing civil war make all factions in Nicaragua wary of those trying to provoke violence.

However, Nicaragua is not immune to conflict, for if mobilization were to occur, the social and political institutions in Nicaragua would likely prove inadequate to dampen or diffuse the tensions. Likewise, the added presence of troubling external factors that could provide access to vital financial and material resources from abroad are cause for concern. Such factors include an active drug trade that exploits Nicaragua's porous borders and geographic location and uses it as a staging ground for transshipment and refueling, an arms trade that could potentially widen the availability of heavy weaponry and munitions, and an ongoing state of tension with Honduras.

In response, throughout the new strategy period the Mission should remain attentive to the threat of potential conflict, particularly in the immediate aftermath of trigger events such as elections and/or natural disasters. Within existing budgetary and management parameters, the Mission should address the existing root causes of violent conflict in an effort to lessen the likelihood that violence would occur at some point. The Mission should be sensitive to the particular circumstances and conditions on the Atlantic Coast when planning, designing and implementing program interventions for Nicaragua. Areas of importance to the Atlantic Coast include good governance, rule of law, extension of basic infrastructure and services – particularly health and education – and support for micro- and small enterprises.

DEMOCRACY AND GOVERNANCE ASSESSMENT

The Democracy and Governance assessment addressed issues related to consensus, rule of law, competition, inclusion, and good governance. The findings follow.

Despite significant strides in human rights, and basic freedoms such as speech and assembly, the polarization that exists among the country's major political parties, the Sandinista National Liberation Front (FSLN) and the two factions of the Liberal Constitutionalist Party (PLC), is the central obstacle to consolidating Nicaragua's democracy over the next five years. The parties, headed by strongmen popularly referred to as *caudillos*, distort the functioning of government. They dominate the executive, judicial, and electoral branches, and legislative representatives are accountable to their party bosses. An informal system of clientelism and patrimonialism guide the public decision-making process and impede popular participation in government, distort service delivery, and enable corruption. The parties invariably act above or outside any genuinely held concepts of rule of law. The situation is further enabled by a history and political culture in which the public seek out personalized rule over rule of law and tolerate the use and abuse of public resources for personal gain.

Nicaragua is in a state of flux, brought on by current President Enrique Bolaños' campaign to dismantle the historical patterns of corruption in government, creating a surge of hope and public support bolstered by the successful prosecution of the corruption case against former President Arnoldo Aleman and some of his close associates. Elements within civil society, especially the country's media, are pressing for political change. Key will be mobilizing these opinions into political action.

Because the parties maintain such a stranglehold on the highly centralized government and economy, and because non-governmental forces for change are so weak and underdeveloped, identifying and then cultivating political will to reform governing institutions and parties from within will be essential to making progress towards democratic consolidation. The basic approach should be to forge alliances with like-minded groups within the country's civil society, and help government institutions to identify problems and become more transparent, then together press for changes within the government.

DEMOGRAPHIC AND HEALTH SURVEY

The 2001 Demographic and Health Survey (DHS) shows that many of Nicaragua's greatest development successes in recent years have occurred in health and family planning. The DHS documents major reductions in infant and child mortality rates, total fertility rates and chronic malnutrition. Infant mortality rates dropped nearly 20 percent in three years. From having one of the highest infant mortality rates, Nicaragua now has one of the lowest in Latin America. Chronic malnutrition fell to 20 percent in 2001. Fertility rates declined from 3.6 to 3.2 children per woman from 1998 to 2001 and the use of family planning methods increased significantly. Nicaragua currently has the highest proportional use of modern contraceptive methods among family planning countries worldwide. Nicaragua's family planning program is considered one of the world's success stories.

Infant and Child Mortality. In 2001, the infant mortality rate (IMR) fell to 31 per 1000 live births. Among donor-assisted countries, only Brazil and Colombia have lower levels of infant mortality in Latin America. The IMR dropped from 40 per 1000 in 1998, a remarkable achievement, moving Nicaragua ahead of its neighbors, Guatemala, Honduras, and El Salvador to become one of the countries with the lowest infant mortality rates in the region. The Child Mortality Rate also dropped sharply from 50 per thousand, much lower than observed in the rest of LAC.

Maternal Child Health. Antenatal care coverage by qualified personnel at 86%, (with a significant improvement of 5 percent since 1998), is higher than many other donor-assisted LAC countries. Institutional deliveries with qualified medical or nursing assistance are also high with coverage of 67 percent.

Family Planning. The use of family planning methods increased notably since 1998, rising from 60 to 69 percent of married women and those in union. Use of family planning is, however, still lower than that found in Brazil, Colombia or the Dominican Republic, and coverage is far lower among young women 15 to 24 years of age. The use of modern methods of contraception has improved substantially to 67 percent and is currently one of the highest in LAC. Nicaragua is currently the country with the highest use of modern methods among family planning users as a whole. Among total users, 67 percent opt for modern methods. Disturbingly, 45.6% of 19 year olds were pregnant or mothers at the time of the survey, virtually unchanged since 1998. However, the percentage of 15 through 18-year-olds pregnant or mothers has dropped indicating that some progress in this area is being achieved. Adolescent pregnancy among 15-19-year-olds decreased from 27% to 24.7% from 1998 to 2001.

Observed and Desired Fertility. The total fertility rate (TFR) in Nicaragua has fallen sharply since 1998, dropping from a lifetime average of 3.6 children per woman to 3.2. While the drop is an important one, the TFR remains high in comparison to other countries.

Nutrition and Breastfeeding. The prevalence of chronic malnutrition or stunting in Nicaragua fell to 20 percent in 2001, a remarkable 5 percent decrease from 1998 and one of the lowest in Latin America after Colombia and the Dominican Republic. Overall malnutrition fell to 10 percent for the first time ever; few LAC countries show lower levels. While only 39 percent of children under four months received exclusive breastfeeding, this was an important increase from the 30 percent found in 1998.

ECONOMIC GROWTH ASSESSMENT

In March 2003, the Mission commissioned an assessment of the current economic situation in Nicaragua, how it is affected by global dynamics, and how lessons learned can help advance the country's economic development goals. The report proposed what Nicaragua must do to promote sustainable economic development and recommended priority actions for USAID in the next strategy period. The report also took into account other studies conducted to examine lessons learned from current and past Mission activities, and inform the SO formulation process. A summary of the report's findings follow.

Nicaragua has gone through a quarter century of volatile change. Economic growth rates in the 1960s were high and primarily led by the rural sector. Revolution and natural disasters claimed a heavy toll on Nicaragua's economy. The national poverty levels, while improving, are still among the highest of the hemisphere and mark Nicaragua as one of the poorest countries. Internal and external national debt is massive and aggravated by deficit spending -- 25 percent of Nicaragua's GDP is consumed by deficit spending. In terms of competitiveness, Nicaragua is one of the least competitive countries in the world. Growth and land utilization continues in relatively uncompetitive sectors like basic grains and coffee.

Lessons Learned. Policy reform is important but in and of itself will not resolve all constraints on economic growth. National governments must focus on key markets and support private sector growth and competitiveness in these markets with investments in infrastructure, education and technology. Promoting open trade and focusing on making the highest possible use of national comparative advantages is critical to becoming more competitive. Poor countries have successfully increased labor-intensive, value-added production of items for specific markets (rural and urban based production).

What is needed in Nicaragua? The report recommended the following: 1) eliminate corruption, as corruption, along with unclear rule of law or compliance with international standards are the greatest constraints on improving Nicaragua's international competitiveness; 2) focus on key market interventions like clusters; 3) limit deficit spending and improve access to capital for the private sector, and 4) expand trade and make the policy and regulatory changes needed to make Nicaragua more competitive.

What USAID Should Do? Primary focus of Mission activities should be on increasing economic growth in a sustainable and broad-based manner by supporting actions to: 1) improve governance and trade framework; 2) provide essential basic services (access to market, economic infrastructure, etc.); 3) effectively manage natural resources; and 4) provide access to market-driven technology development and dissemination. These actions should all aim to improve Nicaragua's international competitiveness in order to take advantage of trade opportunities in regional and international markets.

ACTION MEMORANDUM

TO: AA/LAC, Adolfo Franco

FROM: Rosalie Fanale, LAC/SPO

SUBJECT: Approval for USAID/Nicaragua Country Plan

Action Requested: Your signature to the attached Management Letter is requested to approve the USAID/ Nicaragua Country Plan and to authorize its incorporation into the recently approved Central America and Mexico (CAM) Regional Strategy and to allow the Mission to proceed with obligations. The Mission's Country Plan will have an approved funding level of \$271.0 million for the FY 2003–2008 period.

Background: The Mission has completed and submitted its Country Plan for FY 2003–2008, which was developed with the central objective of supporting the CAM Regional Strategy for that period. Following submission, the Country Plan was reviewed by the LAC Bureau and relevant offices throughout the Agency. The Mission's Country Plan is consistent with and strongly supports the three principal objectives of the CAM Regional Strategy.

Authority: Approval of the CAM Regional Strategy was provided through the Management Agreement that you signed on August 1, 2003 in accordance with ADS 201.3.10.3. You have the authority to approve the Country Plan and its incorporation into the CAM Regional Strategy pursuant to ADS 103.3.8.1 in which you are delegated authority for strategic planning by the AA/PPC. The general authority to implement approved strategic, special, and program support objectives delegated to you by the AA/PPC in ADS 103.3.8.2 gives you the authority to allow the Mission to proceed with obligations (subject to the Mission's meeting all preobligation requirements).

Recommendation: That you sign the attached Management Letter indicating your approval of the Mission's Country Plan and its incorporation into the CAM Regional Strategy beginning in FY 2003.

MANAGEMENT LETTER

Jim Vermillion
Mission Director
USAID/Nicaragua

Dear Mr. Vermillion:

This is to express my sincere congratulations to your Mission for its outstanding work in completing its Country Plan for FY 2003 – 2008. I am pleased with the strategic direction and focus areas you have emphasized in your Country Plan.

This Management Letter approves the incorporation of the USAID/Nicaragua Country Plan into the Central America and Mexico (CAM) Regional Strategy. The USAID/Nicaragua Country Plan is consistent with and strongly supports the CAM Regional Strategy.

As the Mission moves forward with its activities, it should keep in mind program and staffing resource limitations so as not to overextend the program and dilute potential impact.

With this letter, subject to the Mission's meeting all preobligation requirements, you are formally authorized to obligate funds under the CAM Regional Strategy beginning in FY 2003.

Sincerely,

Adolfo Franco
Assistant Administrator
Bureau for Latin America
and the Caribbean